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# Taiwan

# Tobacco and Products

# Annual

# 2003

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**Report Highlights:**
**Total consumption and imports of tobacco leaf in 2003 are forecast to be 9 percent lower than the 2001 and 2002 average. Taiwan's cigarette consumption level is approximately 41 billion pieces. The market share of local brands is likely to fall under 50 percent because of increasing PRC cigarette imports that began in 2003. Japan and Japanese style cigarettes are also expected to increase market shares in Taiwan.**

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Note: $1 = NT$34.7 as of 05/28/03

## Executive Summary

Total consumption and imports of tobacco leaf in 2003 are forecast to be 9 percent lower than the 2001 and 2002 average. Taiwan's cigarette consumption level is approximately 41 billion pieces. The market share of local brands is likely to fall under 50 percent because of increasing PRC cigarette imports that began in 2003.

As a result of WTO entry, Taiwan dismantled its tobacco monopoly in January 2002. The former monopoly Taiwan Tobacco and Wine Board (TTWB) was corporatized in July 2002 and renamed as the Taiwan Tobacco and Liquor Corporation (TTLC). Although it still is a state-run corporation, privatization is expected by 2005. The old monopoly tax on cigarette imports (NT$830 per 1000 pieces) was replaced with an import tariff (27 percent ad valorem) and an excise tax (NT$ 590 per 1,000 pieces). In addition, a new health tax surcharge of NT$250 per 1,000 pieces is now assessed on cigarettes -- in addition to the standard 5 percent value-added tax.

As a result, prices for the mainstream brand cigarettes, both domestic and foreign brands, are priced NT$10 (approximately $ 0.28) per pack higher than under the monopoly system. In addition, the health tax surcharge will likely soon be doubled to NT$500 per 1,000 pieces once revisions to the Tobacco Hazard Prevention Act (THPA) pass the Legislative Yuan (LY). This is expected in 2003 or 2004. To survive, the former tobacco monopoly has been cutting back incrementally on tobacco production in Taiwan contracts in an attempt to phase out domestic production. Domestic tobacco leaf production is expected to continue falling and be increasingly replaced by tobacco imports. Tobacco imports from the United States consist mostly of high quality flue-cured tobacco while tobaccos from other origins are a mix of low and high quality blended flue-cured. Since Japanese type cigarettes are increasing their market share, Taiwan's domestic cigarette production changing its tobacco imports to produce more Japanese type cigarettes instead of the once prevalent English type. As a result, imports of *burley* and *oriental* tobacco are expected to increase significantly in the years to come.

## Situation and Outlook, Tobacco Unmanufactured (Flue-cured)

### Production

Taiwan only produces *flue-cured* tobacco. Tobacco production area is expected to continue falling, following the pattern in recent years. Planted area in 2002/03 is 2,200 hectares, which is down from a 3,000 hectare average in 2000/01 and 2001/02. In the near future, even this small amount will be phased out. Tobacco production in 2002/03 is estimated at 5,500 mt on a farm weight basis. Dry weight production is estimated at 5,250 mt, of which 70 percent was stemmed/stripped tobacco and the rest 30 percent tobacco stems. The production forecast for 2003/04 remains at 2003 levels. The TTLC tobacco fixed purchase price fell to NT$166/kg or $4.78/kg, which was down sharply from the once prevalent price of NT$192/kg or $5.53. TTLC downsized further during 2002-3 by closing down one of its last remaining two tobacco factories in Taiwan.

### Consumption

Total tobacco consumption in recent years was affected by higher taxes and prices resulting from Taiwan's WTO accession. Total consumption surged 6 percent in 2001, on the eve of WTO accession as consumers stockpiled cigarettes. In 2002, demand dropped by 8 percent below 2000 levels. In 2003, tobacco consumption will likely rebound to approximately 17,000 mt, as stocks accumulated by consumers in 2001 run out. However, cigarette production in 2003 will be 9 percent lower than the 2000-1 average, indicating a long-term decline.

Taiwan's falling cigarette production is not only a result of high costs, but can be partially attributed to increasing PRC cigarette imports. It can also be attributed to changing tastes. In general, Taiwan produces English type cigarettes and only small quantities of American or Japanese blend cigarettes, often referred to as blend type cigarettes. In 2001, Taiwan started shifting to the production of more blend type cigarettes. This should increase consumption demand of *burley* and *oriental* tobacco. However, it is difficult to break down the proportions of tobacco consumption go into flue-cure tobacco versus other tobacco consumption. Taiwan Customs considers all Taiwan tobacco imports to be *flue-cured* tobacco because TTLC has set a policy of not releasing the statistical information which is now considered business confidential.

The consumption of expanded tobacco and tobacco stems has been growing because they are lower in tar and nicotine. In 2002 TTLC started its production of expanded tobacco with monthly capacity 2,000 kg. Expanded tobacco is manufactured solely from Taiwan tobacco. Consumption of both Taiwan and imported tobacco stems is included in the domestic *flue-cured* consumption figure, therefore domestic tobacco consumption is higher than imported. This is because TTLC does not separate tobacco stem consumption by source. An estimated 65 percent of total tobacco consumption is stemmed/stripped tobacco, of which about 35 percent is domestic, 30 percent is from the U.S., and the remaining 35 percent is from other seven foreign sources. U.S. tobacco remains an essential ingredient of the TTLC cigarette formulations because of its unique quality characteristics. Tobacco imported from other countries than the U.S. are categorized into a lower quality category that is bended other quality grades and Taiwan grown products.

**Trade**

Imports

Tobacco leaf imports are primarily *flue-cured* with small amounts of *oriental* imports from Balkan and Mediterranean countries. Taiwan does not regularly import *burley* tobacco, but when it does, it typically imports from the U.S. In 2002, *flue-cured* tobacco imports accounted for 87 percent of total imports, while *oriental* tobacco made up 13 percent. The 2002 *burley* imports from the U.S. were included into the *flue-cured* category. Higher import and consumption forecasts for *oriental* and *burley* are also a result of increasing blend type cigarette production. The consumption shares of *burley*, *oriental* and *flue-cured* tobaccos are not available.

Total tobacco imports in 2003 fell 13 percent compared to a year earlier. This was a 9 percent decrease from the 2001 and 2002 average. U.S. *flue-cured* tobacco imports, by quantity, took a 50 percent share of total imports. The drop of Taiwan tobacco imports was the result of still high stocks, an anticipated decrease in cigarette production, and more trade in high value stemmed/striped tobacco. U.S. tobacco in redried stemmed/stripped form, accounted for 76 percent of 2002 total imports of $40 million, compared to a 71 percent share in 2001's total imports of $35 million. In 2002, stemmed/stripped tobacco imports accounted for 55 percent of total imports, of which 63 percent of stemmed/stripped tobacco was supplied by the U.S. The U.S. *flue-cured* is forecast to have a 50 percent import share. Because U.S. tobacco is considered an essential ingredient of TTLC cigarette formulations, it is competitive with tobacco imported from other countries.

Exports

Taiwan is not expected to export tobacco any time soon. TTLC uses the best quality domestic *flue-cured* tobacco to manufacture cigarettes and attempts to export the rest. Since the quality was low, TTLC was unable to locate export markets for surplus domestic tobacco in recent years. There were zero tobacco exports in 2001 and 2002. Another reason for zero exports might be attributed to the WTO accession -- Taiwan’s export subsidy is bound at zero, which means it cannot sell its products below the cost of production. Since Taiwan tobacco is not internationally competitive, this means Taiwan is effectively unable to export.

Tariff Changes

The current preferential tariffs on tobacco leaf, stems, and refuse are all at 17 percent. The tariff rate for manufactured tobacco products or manufactured tobacco substitutes, such as homogenized tobacco sheets, expanded tobacco leaves, tobacco extract and essences, is 20 percent.

**Stocks**

Tobacco stocks are still very high because of pre-WTO guaranteed purchase contracts with farmers and of Taiwan's hard to export surplus. Stocks are expected to decline further because of a 50 percent cut in plantings.

**Marketing**

Currently about one-half of Taiwan's tobacco leaf imports are stemmed/stripped tobacco. TTLC has closed one of its two tobacco processing plants. Since the only plant that remains in operation is mostly for stemmed tobacco, imports of un-stemmed tobacco are expected to fall.

## Situation and Outlook, Tobacco Manufactured (Cigarettes)

**Production**

Since Taiwan opened its cigarette market to Japanese brands in 1993, the market share held by local brands has declined continuously. To date, foreign brands have about 50 percent of the Taiwan cigarette market. TTLC's annual cigarette production capability shrank to 27 billion pieces. In 2001, domestic cigarette production increased by 1.2 billion pieces, or 6 percent, from a year earlier because of hoarding In 2002 the retail prices increased NT$10 per pack for both domestic and foreign mainstream brands. Cigarette production for 2002 was decreased 13 percent from 2001. Production forecast for 2003 is 20.5 billion pieces, a little lower than in 2000's 21 billion pieces. Production is likely to further shrivel because of expected higher imports from the PRC which are direct competitors of Taiwan. The effect should be most significant at the land end of the market.

To counter the declining market share for its products, the TTLC is removing old brands that are not doing well and developing new cigarette types (e.g., menthol, light, mild brands, etc.). It also has introduced new packaging (e.g., hard pack boxes), and new presentations (e.g., 100 mm cigarettes) to compete with popular foreign brands and to target young smokers who prefer imports. Currently, the most popular domestic brand is still *Long Life*. TTLC initiated a new side line of *Long Life* named *Gentle* which is a type of blended which is taking increasing market share in Taiwan. TTLC has also targeted *Mild Seven* by creating its own blend type cigarettes.

TTLC is also gradually reducing the tar and nicotine content of existing brands. This is not only because foreign brands are generally lighter than domestic brands, but also because cigarettes must meet the tar and nicotine requirements of the Tobacco Hazards Prevention Act (THPA) which became law in September 1997. By July 2001, tar levels must be below 15 mg and nicotine levels below 1.5 mg. By July 2007, tar and nicotine levels must be below 12 mg and 1.2 mg respectively. The tar/nicotine content of most domestic brands vary from low to high, but no longer cluster around the very high 14 mg/1.4 mg and 11 mg/1.1 mg.

Since 1995, the Taiwan Department of Health (DOH) has conducted inspections monitoring cigarette tar and nicotine. According to DOH, all cigarettes currently sold on Taiwan are in compliance with the July 2001 requirements.

**Consumption**

Although the THPA took effect in 1997, it will be made more stringent in the years to come. The THPA designated several new types of public areas as smoke-free zones while imposing further limits on cigarette advertising. The Department of Health (DOH) initiated an amendment further strengthening the THPA by increasing the health tax surcharge to NT$10 per pack from the current NT$5. The bill passed the first reading in May 2003 and is awaiting approval of the Legislative Yuan. It is expected to pass the Legislative Yuan quickly because it incorporates ideas from the Framework Convention on Tobacco Control that was unanimously adopted by the 192 members of the World Health Organization in May 2003. Despite the increasingly stringent THPA and higher priced cigarettes, Taiwan's cigarette consumption level in 2003 is forecast at 41 billion pieces -- with foreign brands taking approximately 50 percent share of the market. Future cigarette consumption is forecast to remain at around 41 billion pieces in the next 1-2 years but will likely slowly decrease thereafter.

A recent NGO survey showed that 47 percent of men smoke. This is unchanged from previous survey taken in 1999. Only four percent of women smoked, a one percent drop from 1999. (The survey used a World Health Organization definition of smoker as an individual who smokes daily or occasionally and is 18 or older).

**Policy**

Although Taiwan is not a member of the World Health Organization (WHO), it has committed to incorporate may of the ideas contained in the WHO Framework Convention on Tobacco Control (FCTC). This will result in strengthening the TPHA by increasing taxes and imposing more stringent controls on advertising and health warning labeling. Taiwan has an influential and active anti-smoking organization, the John Tung Foundation which has closely followed the development of the WTO's FCTC.

**Trade**

Imports

In 2002 cigarette imports fell 24 percent from a year earlier because of hoarding at the end of 2001. Total cigarette imports in 2001 reached 23.5 billion pieces, up 19 percent or about 4 billion pieces over the 2000 imports. Imports in 2003 are forecast at 20.5 billion pieces, which is about 50 percent of the total cigarette consumption. The top four suppling countries remained unchanged in 2002 and are expected to remain stay the same in 2003. They account for 90 percent of imports and include Japan (56%), Germany (16%), the United Kingdom (8%), and the United States (10%). As compared with a year earlier, the U.S. share of the cigarette import market remained unchanged. Japan's share increased 12 percent while Germany's fell 9 percent and the U.K.'s dropped 3 percent. This was also another indicator of the growing strength of blend type cigarettes in the market. U.S. imports in 2003 are forecast at 2 billion pieces, 10 percent of the total imports. The best selling foreign brands are Japanese *Mild Seven* and US brands *Marlboro* and *Parliament*. On February 2002, Taiwan lifted the import ban on PRC cigarettes. However, PRC cigarettes only arrived on the Taiwan market after a year-long delay because of Cross-Straits complications -- China refused to recognize TTLC's *Long Life* brand. The leading PRC brand cigarette was launched on the Taiwan market in April 2002 and priced at NT$120 per pack. Other PRC brands are priced at the same level as domestic mainstream brands at around NT$35 per pack.

Exports

In 2002, Taiwan's cigarette exports accounted for 4 percent of production, a 3 percent increase from a year earlier. Exports are forecast to increase because of TTLC's drive to export to PRC as compensation for the loss of local market share to Chinese brands.

Tariff Changes

When monopoly control ended with WTO accession on January 1, 2002, the monopoly tax on cigarette imports was replaced with an import tariff (27 percent ad valorem) and an excise tax (NT$590 per 1,000 pieces). A new health tax surcharge of NT$250 per 1,000 pieces was also assessed on cigarettes. In addition, cigarettes are charged a 5 percent value-added tax. These new taxes add approximately NT$ 6 (approximately $0.17) to the cost of a pack of cigarettes.

## Prices

After the monopoly was abolished, the mainstream retail prices for foreign brands increased NT$10 to NT$50 per pack. Luxury cigarettes that were priced two to three times higher than mainstream brands saw smaller or no price increases. The retail price of *Mi-Ne Prestige* remained at NT$80 per pack and *Davidoff Magnum* was steady at NT$150 per pack.

The price gap between imported and locally produced cigarettes still is significant. The mainstream retail prices for domestic brands also increased NT$10 to NT$35 per pack.

## Marketing

Most of the consumption changes in 2001 and 2002 came from the effects of WTO accession. The total cigarette market in 2003 is forecast at 41 billion pieces. Foreign brand penetration is likely to rise above 50 percent of the total Taiwan cigarette market as local brands are likely to lose out to cheaper PRC brands. Japanese market share is also expected to grow as the demand for blended type cigarette increases.

## Statistical Tables

**Table 1. Flue-cured Production, Supply and Demand (MT)**

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | Taiwan | | | | | |
| Commodity | Tobacco, Unmfg., Total | | | | (HA)(MT) | |
| | 2001 | Revised | 2002 | Estimate | 2003 | Forecast |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Begin | | 01/2001 | | 01/2002 | | 01/2003 |
| Area Planted | 2929 | 2929 | 2115 | 2929 | 0 | 2197 |
| Beginning Stocks | 33290 | 33290 | 28836 | 28836 | 24862 | 28596 |
| Farm Sales Weight Prod | 7322 | 7322 | 5287 | 7730 | 0 | 5500 |
| Dry Weight Production | 7029 | 7029 | 5076 | 7300 | 0 | 5250 |
| U.S. Leaf Imports | 3739 | 3739 | 4000 | 5000 | 0 | 3500 |
| Other Foreign Imports | 3103 | 3103 | 4000 | 3460 | 0 | 3500 |
| TOTAL Imports | 6842 | 6842 | 8000 | 8460 | 0 | 7000 |
| TOTAL SUPPLY | 47161 | 47161 | 41912 | 44596 | 24862 | 40846 |
| Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Dom. Leaf Consumption | 10644 | 10644 | 9898 | 8200 | 0 | 9100 |
| U.S. Leaf Dom. Consum. | 3608 | 3608 | 3362 | 3400 | 0 | 3700 |
| Other Foreign Consump. | 4073 | 4073 | 3790 | 4400 | 0 | 4100 |
| TOTAL Dom. Consumption | 18325 | 18325 | 17050 | 16000 | 0 | 16900 |
| TOTAL Disappearance | 18325 | 18325 | 17050 | 16000 | 0 | 16900 |
| Ending Stocks | 28836 | 28836 | 24862 | 28596 | 0 | 23946 |
| TOTAL DISTRIBUTION | 47161 | 47161 | 41912 | 44596 | 0 | 40846 |

**Table 2. Flue-cured Imports (arrival data)**

| **Import Trade** Matrix | | | |
|---|---|---|---|
| Country | Taiwan | | |
| Commodity | Tobacco, Unmfg., Total | | |
| Time period | 1/2001 | Units: | metric ton |
| Imports for: | 2001 | | 2002 |
| U.S. | 3740 | U.S. | 5000 |
| Others | | Others | |
| Brazil | 793 | Brazil | 1763 |
| Greece | 202 | Greece | 1073 |
| Malawi | 571 | Malawi | 344 |
| Thailand | 643 | Thailand | 253 |
| Zimbabwe | 885 | France | 27 |
| Italy | 8 | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total for Others | 3102 | | 3460 |
| Others not Listed | 0 | | 0 |
| Grand Total | 6842 | | 8460 |

**Table 3. Flue-cured Exports**

| | | | |
|---|---|---|---|
| Export Trade Matrix | | | |
| Country | Taiwan | | |
| Commodity | Tobacco, Unmfg., Total | | |
| Time period | | Units: | |
| Exports for: | | | 1 |
| U.S. | | U.S. | |
| Others | | Others | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total for Others | 0 | | 0 |
| Others not Listed | | | |
| Grand Total | 0 | | 0 |

**Table 4. Cigarette Production, Supply and Demand (Million Pieces)**

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | Taiwan | | | | | |
| Commodity | Tobacco, Mfg., Cigarettes | | | | (MIL PCS) | |
| | 2001 | Revised | 2002 | Estimate | 2003 | Forecast |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Begin | | 01/2001 | | 01/2002 | | 01/2003 |
| Filter Production | 22226 | 22226 | 20678 | 19383 | 0 | 20500 |
| Non-Filter Production | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Production | 22226 | 22226 | 20678 | 19383 | 0 | 20500 |
| Imports | 23461 | 23461 | 20878 | 17736 | 0 | 20500 |
| TOTAL SUPPLY | 45687 | 45687 | 41556 | 37119 | 0 | 41000 |
| Exports | 180 | 180 | 200 | 741 | 0 | 850 |
| Domestic Consumption | 45507 | 45507 | 41356 | 36378 | 0 | 40150 |
| TOTAL DISTRIBUTION | 45687 | 45687 | 41556 | 37119 | 0 | 41000 |

**Table 5. Cigarette Imports (taxed data)**

| | | | |
|---|---|---|---|
| Import Trade Matrix | | | |
| Country | Taiwan | | |
| Commodity | Tobacco, Mfg., Cigarettes | | |
| Time period | 1/2001 | Units: | million piece |
| Imports for: | 2001 | | 2002 |
| U.S. | 2290 | U.S. | 1742 |
| Others | | Others | |
| Japan | 10422 | Japan | 9880 |
| Germany | 5880 | Germany | 2889 |
| U.K. | 2594 | U.K. | 1384 |
| Slovenia | 1011 | Malaysia | 882 |
| Switzerland | 685 | Slovenia | 563 |
| Malaysia | 441 | Switzerland | 266 |
| Singapore | 103 | Mainland china | 41 |
| Belgium | 12 | Hong kong | 36 |
| | | | |
| | | | |
| Total for Others | 21148 | | 15941 |
| Others not Listed | 23 | | 53 |
| Grand Total | 23461 | | 17736 |

**Table 6. Cigarette Exports**

| | | | |
|---|---|---|---|
| Export Trade Matrix | | | |
| Country | Taiwan | | |
| Commodity | Tobacco, Mfg., Cigarettes | | |
| Time period | 01/2001 | Units: | million piece |
| Exports for: | 2001 | | 2002 |
| U.S. | | U.S. | |
| Others | | Others | |
| Hong Kong | 173 | Hong Kong | 555 |
| Macau | 3 | Philippines | 154 |
| Philippines | 3 | Mainland china | 16 |
| | | Vietnam | 4 |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total for Others | 179 | | 729 |
| Others not Listed | 1 | | 12 |
| Grand Total | 180 | | 741 |